

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Periodic Reporting : Docket No. RM2015-4  
(Proposal Eleven) :

INITIAL COMMENTS OF THE GREETING CARD ASSOCIATION

In this Docket, the Postal Service proposes a change in analytical method, under which the swipe fees it incurs when customers use credit or debit cards to purchase products and services would be attributed in accordance with revenue rather than, as now, on the basis of window service cost volume variability.<sup>1</sup> The Service expects that the new method would allow nearly all of the swipe fee cost to be attributed. The Greeting Card Association (GCA) files these comment principally in order to call attention to an aspect of the proposal which suggests that, if the Commission approves it, it should do so in an explicitly situation-specific, and carefully circumscribed, fashion.

*The Postal Service proposal.* In advancing Proposal Eleven, the Service points out that customers' use of credit and debit cards has increased significantly in recent years, entailing a corresponding increase in the swipe fees it must pay. The fee for a transaction is in proportion to the amount the customer charges. Currently, the Service attributes about 42 percent of the swipe fees using window service volume variability; the remainder falls into institutional cost.

---

<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eleven), November 4, 2014.

The Postal Service states that the existing method does not really reflect the causation of the fees, which are determined in each case by the amount purchased. It also considers it desirable to attribute almost all of this cost (\$196.1 million out of \$200 million) to products and services.

*Discussion.* The Postal Service's reasons for advancing Proposal Eleven are, in themselves, not unpersuasive. In particular, it is not hard to imagine situations in which a low-dollar-value transaction might involve a considerable amount of window clerk time, arguably resulting in over-attribution to the product or service concerned.

When one looks beyond its immediate practical results, however, an inherent feature of the new method raises questions of costing theory. Because the proposed method attributes swipe fees on the basis of per-transaction revenue, the level of cost attributed to a given product depends in material part on its price – which is to say, on the institutional cost burden (markup) it carries as a result of previous ratemaking decisions. Here is a simplified hypothetical example:

*Consider a product A with a unit attributable cost of \$0.20 and a markup of 10 percent, yielding a unit price of  $\$0.20 + (\$0.20 * 0.1) = \$0.22$ . A sale of 100 units of product A would generate revenue of \$22.00 and a (3 percent) swipe fee of  $\$22.00 * 0.03 = \$0.66$ . If product B has the same unit attributable cost, but a markup of 50 percent, its unit price is  $\$0.20 + (\$0.20 * 0.5) = \$0.30$ ; the 100-unit sale would produce revenue of \$30.00 and a swipe fee of  $\$30.00 * 0.03 = \$0.90$ .*

Thus the swipe fee cost recorded for two quantitatively identical and operationally indistinguishable transactions in these two products would be 36.4 percent greater for product B than for product A, *solely* because product B has been assigned a larger markup in the ratemaking process. In other words: more cost

would be attributed to product B because a previous decision<sup>2</sup> assigned it a greater per-piece burden of institutional cost. A causal relationship – the necessary basis for cost attribution under the statute<sup>3</sup> – is thus made to depend on a *non-causal* allocation of costs for which no causal relationship has been established (and, perhaps, for which none could be).

GCA does not deny that the relationship between the swipe fees themselves and the products or services involved in the sales generating them – looked at in isolation – could be characterized as “causal.” The Postal Service’s description of the data systems available and the way in which they would be used suggests that the relationship could also turn out to be “reliably identified.” The difficulty is simply that the swipe fee is what it is, in any given case, in significant part because of the per-piece quantum of “un-caused” institutional cost borne by the product concerned. This fact, in GCA’s view, calls into question the Service’s view that per-transaction revenue is an unproblematic basis for drawing a causal relationship between swipe fees and the attributable cost of a product.

*Suggested treatment.* GCA accordingly would suggest that, if the Commission approves Proposal Eleven, it do so in a carefully circumscribed way. First, the Commission should clearly recognized the anomaly inherent in basing an attribution relationship, to a significant degree, on previous pricing decisions distributing institutional costs among products. It would be highly undesirable, in GCA’s view, to allow the exceptional circumstances present here to be converted into a broad precedent for basing attribution on previously-established markups. If the Commission believes that the value of substantially increasing the attribution level of the swipe fee cost element (and perhaps also of the improvement in accuracy which the Service believes Proposal Eleven offers) can outweigh the costing theory anomaly we have described, it should make that an explicit finding

---

<sup>2</sup> Or, perhaps, a long series of such decisions, possibly dating back to ratemaking practice under the 1970 Postal Reorganization Act.

<sup>3</sup> 39 U.S.C. sec. 3622(c)(2).

as well. Finally, the Commission should make it clear that it is *not*, as a general matter, sanctioning any use of markups or institutional cost burdens as a constituent of, or ultimate basis for, the reliably identified causal relationships required for cost attribution.

December 3, 2014

Respectfully submitted,

GREETING CARD ASSOCIATION

David F. Stover  
2970 S. Columbus St., No. 1B  
Arlington, VA 22206-1450  
(703) 998-2568  
(703) 998-2987 fax  
E-mail: [postamp@crosslink.net](mailto:postamp@crosslink.net)